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SUBJECT: TFLE01: STATUS OF UAE INVESTMENT IN LEBANON

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11. (SBU) Summary: Prior to the most recent outbreak of hostilities in Lebanon, UAE-based companies had an estimated US \$2.3 billion invested in-country, largely in Beirut's real estate and luxury services sectors. While most UAE-owned properties have not been damaged by Israeli air strikes, investors are suffering losses due to a damaged infrastructure, labor shortages and lost tourism revenue. Several companies have issued public statements indicating their intention to maintain their current level of investment in Lebanon despite these losses, but their positions may change as the likelihood of an extended conflict increases. According to an official from the Abu Dhabi Investment Authority, the UAE government does not possess any significant investments in Lebanon. End Summary.

#### SCALE OF INVESTMENT

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12. (U) Foreign direct investment from the Gulf into Lebanon has steadily increased since 2001, as Gulf investors acquired surplus liquidity from rising oil revenues and looked to Lebanon's growing international tourism industry and booming real estate market as sources of potential profit. Media reports estimate that approximately 80% of the investment from UAE-based companies was put into real estate development, mostly in and around central Beirut. Much of the remainder went into tourism-related services such as amusement parks, hotels, restaurants and retail space. As is common in the region, investors have frequently united the two ventures into "mega-projects" consisting of high-end real estate interspersed with commercial spaces to create self-contained communities catering to wealthy expatriates and other high-value consumers.

13. (U) Several prominent UAE-based firms possess significant investment risks in Lebanon, including the following:

-- The Abu Dhabi Investment House announced plans for a US \$600 million "Beirut Gate" commercial and real estate development project in March 2006, though construction had not yet begun as of the onset of hostilities;

-- Al Futtaim Group reportedly has an estimated US \$450 million invested in a range of hotels, real estate development projects and retail facilities;

-- Al Habtoor Group has several enterprises worth an estimated total of US \$450 million in Beirut, including the high-end Metropolitan Palace Hotel, the recently opened US \$150 million Habtoor Grand Hotel Convention Center and Spa, and the country's largest amusement park, Habtoor Land;

-- DAMAC Properties has an estimated US \$150 million invested in "La

Residence by Ivana Trump," a tower of luxury condominiums under development in downtown Beirut;

-- Dubai Islamic Bank has invested up to US \$50 million into three large real estate projects in various parts of Beirut, with another US \$200 million allocated for the projects' completion;

-- Emaar Properties has commenced several unspecified projects with a total estimated value of US \$250 million, including a number of retail facilities under its subsidiary Emaar Malls;

-- Reef Real Estate Investment has invested a reported US \$20 million in a number of real estate projects throughout Beirut;

-- Rotana Hotels manages the Gefinor Rotana Hotel in Beirut and the Hamzieh Rotana Hotel on the highway from Beirut to Damascus, and reportedly had started development on a seaside resort in Raouche;

-- Tamweel, a prominent Dubai-based mortgage lender, is believed to have financed a large number of private real estate purchases throughout Lebanon.

¶4. (U) Portfolio investment from the Gulf has also bolstered Lebanon's stock market in recent years. While many UAE investors were scared away in 2005 by the bourse's instability following Rafiq Hariri's assassination, a number were lured back by the market's dramatic recovery and superior performance in comparison to other emerging markets in the region. Media reports indicate that investment was focused in those publicly traded firms related to the country's successful real estate and tourism sectors, particularly Solidere, the large real-estate development firm founded by Hariri. While the scale of UAE investment is not known in absolute terms, it is believed to be a relatively small portion of UAE citizens' total overseas portfolio investments.

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¶5. (SBU) In contrast to the large private-sector ventures, the UAE Government does not have any significant investments in Lebanon, according to an official from the Abu Dhabi Investment Authority (the main investing arm of the emirate of Abu Dhabi). Additionally, officials at the Abu Dhabi-based Arab Monetary Fund (AMF) have stated that Lebanon is not heavily in debt to the AMF. Bashir Al-Haskouri, an AMF economist, told Econchief on July 24 that Lebanon's total public debt is \$35 billion, but only a small portion of that is owed to the AMF.

#### IMPACT OF CONFLICT

¶6. (U) Due to the geographic concentration of UAE real investments in and around Central Beirut (particularly the Solidere district), none have been significantly damaged by Israeli strikes. However, public statements from several of the companies indicate that the hostilities have triggered shortages in supplies and labor due to damaged and threatened transportation routes, as well as a sudden drop in the country's tourist consumer base. Consequently most UAE-owned facilities have been closed or reduced to a skeleton staff, and are currently operating at a loss.

¶7. (U) UAE financial investments have likely been more directly affected by the conflict, due to its impact on the Lebanese bourse. The market's major BLOM Index slid more than 25 per cent in the first five days of the conflict, triggering first a reduction in the daily pricing limits of all shares and bonds to 5 per cent and finally the closure of the market on July 17. Particularly hard-hit was Solidere, the largest company on the market and a favorite of Gulf investors. Shares of Solidere slid in value by 14 per cent on July 13, and had dropped to below US \$20 a share for the first time in more than a year by the time the market closed.

¶8. (SBU) Thus far, no UAE-based company has announced intentions to significantly reduce or withdraw investments from Lebanon due to the conflict. While some corporate representatives (specifically from Al Habtoor Group and the Abu Dhabi Investment House) have publicly noted the need to monitor the situation closely and reevaluate, many

(most notably DAMAC Properties) have affirmed their intentions to go forward with their investment plans as soon as the hostilities cease, noting Lebanon's economic resilience in the face of past political turmoil. This same pattern is apparent among investors from across the Gulf and the Arab world.

19. (SBU) Comment: The decision by UAE companies not to withdraw or draw down their presence in Lebanon is explicitly based upon the assumption that the present hostilities constitute only a short-term disruption. If the possibility of an extended conflict becomes more apparent, investors will likely reevaluate their stance and may shift their investments away from Lebanon to minimize losses and seek financial gain elsewhere. End comment.

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